

AR37

24

Prairie Oil Royalties

COMPANY, LTD.

~~File~~

*Perpex.
see top note!*

ANNUAL REPORT

1972

The Annual Meeting of Shareholders of the Company will be held on Monday, April 30, 1973 at 2 o'clock in the afternoon, Mountain Daylight Time, in the Board Room of Canadian Industrial Gas & Oil Ltd., 12th Floor, 640 8th Avenue, S.W., Calgary, Alberta, Canada T2P 1G9.

Directors:

Edward G. Battle	Calgary, Alberta
Stewart R. Dyckman	Calgary, Alberta
Edward A. Galvin	Calgary, Alberta
Frederick A. McKinnon	Calgary, Alberta
Clifford A. Rae	Calgary, Alberta
David M. Tyerman, Q.C.	Regina Saskatchewan

Officers:

Edward G. Battle	President
Stewart R. Dyckman	Vice-President
David M. Tyerman, Q.C.	Secretary
A. Kenneth Davies	Treasurer
Laurence A. Sills	Assistant Secretary

Head Office:

640 Eighth Avenue S.W., Calgary, Alberta T2P 1G7

Registered Office:

2236 Albert Street, Regina, Saskatchewan S4P 2V4

Auditors:

Riddell, Stead & Co., Calgary, Alberta

Registrars & Transfer Agents:

Canada Permanent Trust Company,
Regina, Saskatchewan, and Toronto, Ontario

Morgan Guaranty Trust Company of
New York, New York, N.Y.

Stock Exchange Listings:

Toronto Stock Exchange, Toronto, Ontario
American Stock Exchange, New York, N.Y.

PRAIRIE OIL ROYALTIES COMPANY, LTD.

DIRECTORS' REPORT

TO: THE SHAREHOLDERS

The audited consolidated financial statements of the Company for the year ended December 31, 1972, are presented herewith.

FINANCIAL

Revenue was \$1,031,937, a 10% increase from 1971 substantially due to the commencement of gas sales from the Cherhill and Big Bend fields of Alberta. Cash earnings of \$840,640 were up 5.5%. However, net earnings declined to 27¢ per share from 28¢ per share in 1971 primarily as a result of workover and start-up costs in these new fields.

PRODUCTION

Average net oil production decreased to 778 barrels per day from 855 barrels per day in 1971. Average net natural gas production increased to 5,021 Mcf. per day from 2,885 Mcf. per day in 1971.

EXPLORATION

Drilling

During 1972 the Company participated in the drilling of 18 gross wells (3.57 net wells), which resulted in one oil well and seven gas wells. The following is a summary, by area, of the wells drilled:

		Oil		Gas		Abandoned		1972 total		1971 total	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
ALBERTA	Exploratory	—	—	4	.80	7	1.49	11	2.29	15	3.24
	Development	1	.06	—	—	—	—	1	.06	3	.46
SASKATCHEWAN	Exploratory	—	—	—	—	1	.10	1	.10	—	—
BRITISH COLUMBIA	Development	—	—	—	—	1	1.00	1	1.00	3	1.51
ARCTIC	Exploratory	—	—	3	.09	1	.03	4	.12	2	.06
TOTAL		1	.06	7	.89	10	2.62	18	3.57	23	5.27

Land

The Company's gross acreage at December 31, 1972 was 3,410,615 acres compared to 3,368,622 acres at the end of 1971. The net acreage, was reduced in 1972 as a result of Panarctic Oils Ltd. earning its interest in lands held in the Canadian Arctic, thereby reducing the Company's interest from 14% to 3.15%. The net acreage at the end of 1972 was 387,942 compared to 559,126 for 1971, the details of which are shown below:

	Leases		Permits & Licences		Total		Gross Royalty
	Gross	Net	Gross	Net	Gross	Net	
Canadian Arctic	102,493	3,229	2,040,602	87,298	2,143,095	90,527	—
Banks Island	—	—	402,593	12,682	402,593	12,682	—
Northwest Territories	—	—	—	—	—	—	18,021
Manitoba	74,028	21,574	—	—	74,028	21,574	—
Saskatchewan	82,810	51,346	—	—	82,810	51,346	385,654
Alberta	293,003	95,911	412,860	114,272	705,863	210,183	12,949
British Columbia	2,226	1,630	—	—	2,226	1,630	—
Total	<u>554,560</u>	<u>173,690</u>	<u>2,856,055</u>	<u>214,252</u>	<u>3,410,615</u>	<u>387,942</u>	<u>416,624</u>

The land holdings of British Columbia Oil Lands Ltd. (35% owned) at December 31, 1972, also showed a decrease from 1971, and were as follows:

	Leases		Permits & Licences		Total		Net Carried Interests		Gross Royalty
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Canadian Arctic	102,493	3,229	2,040,602	87,298	2,143,095	90,527	—	—	—
Alberta	5,440	488	—	—	5,440	488	—	—	—
British Columbia ...	35,155	11,744	—	—	35,155	11,744	389,166	77,656	5,882
Total	<u>143,088</u>	<u>15,461</u>	<u>2,040,602</u>	<u>87,298</u>	<u>2,183,690</u>	<u>102,759</u>	<u>389,166</u>	<u>77,656</u>	<u>5,882</u>

Arctic Islands

Subsequent to Panarctic Oils Ltd. earning its interest in the farmout lands, the Company and British Columbia Oil Lands Ltd. participated directly in the drilling of three wells. This drilling resulted in the Panarctic Hecla F-62 gas discovery and two successful follow-up wells to the 1969 Panarctic Drake Point gas discovery on the Sabine Peninsula of Melville Island.

The Hecla discovery well, located on Melville Island approximately 25 miles west of the original Drake Point discovery, was reported to have produced gas at flow rates up to 20 MMcf. per day. The two follow-up wells, Drake Point F-16 and Drake B-44, are located 6 miles and 11 miles southeast respectively of the Drake Point discovery. Drake Point F-16 produced gas on production test up to 40 MMcf. per day. Drake B-44 produced gas on drillstem test at the rate of 5.5 MMcf. per day but was not production tested. The Company has a 3.15% interest in these three wells.

On behalf of the Board



President.

Calgary, Alberta.
April 6, 1973.

CONSOLIDATED BALANCE SHEET

as at December 31, 1972

Assets

	<u>1972</u>	<u>1971</u>
CURRENT ASSETS		
Cash and short-term deposits	\$1,021,030	\$1,101,536
Accounts receivable	381,424	83,872
Drilling and other deposits	44,876	43,239
	<u>1,447,330</u>	<u>1,228,647</u>
INVESTMENT in British Columbia Oil Lands Ltd., at cost (Note 2)	<u>2,009,117</u>	<u>2,009,117</u>
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1 and 3)	6,053,787	5,322,609
Accumulated depletion and depreciation	<u>1,737,897</u>	<u>1,435,169</u>
	<u>4,315,890</u>	<u>3,887,440</u>
	<u>\$7,772,337</u>	<u>\$7,125,204</u>

PRAIRIE OIL ROYALTIES COMPANY, LTD.
AND SUBSIDIARY COMPANIES

Liabilities

	<u>1972</u>	<u>1971</u>
CURRENT LIABILITIES		
Accounts payable	\$ <u>161,331</u>	\$ <u>52,110</u>

Shareholders' Equity

CAPITAL STOCK

Authorized

2,500,000 shares of \$1 par value

Issued

1,961,520 shares	1,961,520	1,961,520
CONTRIBUTED SURPLUS	574,330	574,330
RETAINED EARNINGS (Note 4)	<u>5,075,156</u>	<u>4,537,244</u>
	<u>7,611,006</u>	<u>7,073,094</u>

Signed on behalf of the Board:

E. G. Battle, Director

S. R. Dyckman, Director

<u>\$7,772,337</u>	<u>\$7,125,204</u>
--------------------	--------------------

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

for the year ended December 31, 1972

	<u>1972</u>	<u>1971</u>
REVENUE		
Oil and gas sales	\$ 428,170	\$ 296,029
Royalties	551,530	594,811
Interest	<u>52,237</u>	<u>47,782</u>
	<u>1,031,937</u>	<u>938,622</u>
EXPENSES		
Production	142,310	81,257
General and administrative	48,987	60,313
Depletion	246,180	194,479
Depreciation	<u>56,548</u>	<u>53,700</u>
	<u>494,025</u>	<u>389,749</u>
NET EARNINGS (Note 4)	537,912	548,873
Retained earnings at beginning of year	<u>4,537,244</u>	<u>3,988,371</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$5,075,156</u>	<u>\$4,537,244</u>
NET EARNINGS PER SHARE (Note 4)	27¢	28¢

339,912

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1972

	<u>1972</u>	<u>1971</u>
FUNDS DERIVED FROM		
Operations		
Net earnings	\$ 537,912	\$ 548,873
Charges not requiring funds	<u>302,728</u>	<u>248,179</u>
Funds generated from operations	840,640	797,052
FUNDS APPLIED TO		
Property, plant and equipment	<u>731,178</u>	<u>967,392</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 109,462</u>	<u>\$ (170,340)</u>

NOTES TO 1972 CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Accounting Policies

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, Prairie Oil Exploration Ltd. and Prairie Gas & Oil Ltd., both of which were inactive during the current year.

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated recoverable reserves.

Depreciation of plant and equipment is being provided at rates which will amortize the original costs over the estimated useful lives of the respective assets.

Note 2 — Investment

The investment in British Columbia Oil Lands Ltd. consists of 333,531 shares representing approximately 35% of that company's outstanding capital stock, with an approximate market value of \$2.8 million. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that could be realized on sale.

Note 3 — Property, Plant and Equipment

		1972		1971
	Cost	Accumulated Depletion And Depreciation	Net	Net
Oil and gas properties	\$5,384,847	\$1,365,575	\$4,019,272	\$3,635,350
Oil and gas production equipment	668,940	372,322	296,618	252,090
	<u>\$6,053,787</u>	<u>\$1,737,897</u>	<u>\$4,315,890</u>	<u>\$3,887,440</u>

Note 4 — Income Taxes

For income tax purposes the Company has claimed drilling, exploration and lease acquisition costs and capital cost allowances in amounts which, in the aggregate, exceed the related depletion and depreciation provisions reflected in the accounts. As a result no income taxes are payable in respect of the earnings reported for the current year and as at December 31, 1972 expenditures remain to be carried forward (subject to assessment by taxation authorities) and applied against future taxable income in the amount of \$940,000.

The Company's basis of accounting for income taxes differs from the deferred tax basis under which income tax provisions are based on the earnings reported in the accounts. If the deferred tax basis had been followed, deferred income taxes of approximately \$198,000 would have been provided for the year ended December 31, 1972 (1971 — \$211,000) and the earnings for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current year and prior periods amount to approximately \$1,319,000 at December 31, 1972.

Note 5 — Directors' Fees

General and administrative expenses include directors' fees of \$2,750.

Auditors' Report

TO THE SHAREHOLDERS
PRAIRIE OIL ROYALTIES COMPANY, LTD.

We have examined the consolidated balance sheet of Prairie Oil Royalties Company, Ltd. and subsidiary companies as at December 31, 1972 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 9, 1973.

RIDDELL, STEAD & CO.
Chartered Accountants

PRAIRIE OIL ROYALTIES COMPANY, LTD.
ANNUAL REPORT 1972

FOOTHILL PRINTERS LIMITED - CALGARY



AR37

84
PRAIRIE OIL ROYALTIES
COMPANY, LTD.

INTERIM REPORT

Six Months Ended
June 30, 1972

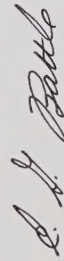
640 Eighth Avenue S.W.,
Calgary, Alberta, Canada
T2P 1G7

TO THE SHAREHOLDERS:

The unaudited consolidated statements of earnings and source and application of funds for the six months ended June 30, 1972, with comparative figures for the equivalent period of 1971, are presented herewith.

Panarctic Tenn et al POR Drake Point F-16 was completed as a gas well in June of this year. The well yielded gas at a restricted flow rate of 4.38 million cubic feet per day from a sand zone at the approximate depth of 3,500 feet. This sand is equivalent to the upper sand section which yielded 10 million cubic feet per day on drillstem test in the Drake Point L-67 discovery, located approximately five miles to the north-west. Panarctic Oils Ltd. stated that the F-16 success confirmed a six mile extension of the Drake Point gas field on the Sabine Peninsula of Melville Island. The Company and British Columbia Oil Lands Ltd. (35% owned) each contributed 3.15% of the cost of the well, which is the same interest as that held in the acreage block on which the well was drilled.

On Behalf of the Board of Directors



President

Calgary, Alberta

August 14, 1972.

CONSOLIDATED STATEMENT OF EARNINGS

Six Months Ended June 30th, 1972 and 1971
(Unaudited)

	1972	1971
SALES AND OTHER REVENUE	\$451,455	\$475,934
EXPENSES		
Field operating expense	57,492	37,907
General and administrative expense	26,741	56,257
Depletion	92,368	87,140
Depreciation	28,272	26,849
	<u>\$204,873</u>	<u>\$208,153</u>
NET EARNINGS	\$246,582	\$267,781
NET EARNINGS PER SHARE	12.6¢	13.7¢
CASH EARNINGS PER SHARE	18.7¢	19.5¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six Months Ended June 30th, 1972 and 1971
(Unaudited)

	1972	1971
FUNDS DERIVED FROM		
Operations		
Net earnings	\$246,582	\$267,781
Non-cash items	120,640	113,989
	<u>\$367,222</u>	<u>\$381,770</u>
FUNDS APPLIED TO		
Property Plant and Equipment	384,224	569,739
Decrease in Working Capital	<u>\$(17,002)</u>	<u>\$(187,969)</u>